Financial Results

Market for the Registrant's Common Stock and Related Stockholder Matters

ADTRAN®'s Common Stock has been traded on the Nasdaq National Market (Nasdaq) under the symbol "ADTN" since our initial public offering of Common Stock in August 1994. Prior to the initial public offering, there was no established trading market for ADTRAN's Common Stock. As of January 31, 2002, ADTRAN had 430 shareholders of record and approximately 10,500 beneficial owners of shares held in street name. The following table shows the high and low sale prices per share for the Common Stock as reported by Nasdaq for the periods indicated:

Common Stock Prices

(In $)

2001 Quarters	High	Low
First	$29.50	$19.88
Second	$30.65	$18.00
Third	$25.90	$17.85
Fourth	$29.05	$18.00

2000 Quarters	High	Low
First	$80.50	$49.06
Second	$73.00	$44.00
Third	$73.25	$41.13
Fourth	$48.19	$16.56

ADTRAN® has operated with a policy of retaining earnings, presently intends to retain all future earnings for use in the development of our business, and does not anticipate paying any cash dividends in the foreseeable future.

The following selected financial data concerning ADTRAN, for and as of the end of each of the years in the five-year period ended December 31, 2001, are derived from the financial statements of ADTRAN, which have been audited by PricewaterhouseCoopers LLP, independent accountants. The selected financial data are qualified in their entirety by the more detailed information and financial statements, including the notes thereto. The financial statements of ADTRAN as of December 31, 2001 and 2000, and for each of the years in the three-year period ended December 31, 2001, and the report of PricewaterhouseCoopers LLP thereon, are included elsewhere in this report.

Selected Financial Data

Income Statement Data

(In thousands, except per share data)

Year Ended December 31	2001	2000	1999	1998	1997
Sales					
CN (Carrier Networks Division)	$238,367	$315,228	$230,967	$167,500	$171,838
EN (Enterprise Networks Division)	148,714	147,721	136,240	119,059	93,497
Total sales	**387,081**	**462,949**	**367,207**	**286,559**	**265,335**
Cost of sales	213,760	233,430	178,629	130,010	130,254
Gross profit	**173,321**	**229,519**	**188,578**	**156,549**	**135,081**
Selling, general and administrative expenses	95,954	87,116	71,735	62,061	44,973
Research and development expenses	58,935	50,628	42,018	37,222	30,055
Operating income	**18,432**	**91,775**	**74,825**	**57,266**	**60,053**
Interest income	8,077	9,025	5,350	5,824	4,175
Interest expense	(2,069)	(1,802)	(2,312)	(2,287)	(1,839)
Other income (expense)	(28)	(4)	(673)	(188)	438
Net realized investment gains (losses)	(674)	84,040	0	0	0
Income before provision for income taxes	**23,738**	**183,034**	**77,190**	**60,615**	**62,827**
Provision for income taxes	6,409	62,232	26,244	20,306	22,618
Net income	**$17,329**	**$120,802**	**$50,946**	**$40,309**	**$40,209**
Earnings per common share-basic	$.45	$3.13	$1.33	$1.03	$1.03
Earnings per common share assuming dilution (1)	$.45	$3.04	$1.31	$1.03	$1.02
Weighted average shares outstanding	38,567	38,647	38,335	38,982	39,202
Weighted average shares outstanding assuming dilution (1)	38,676	39,704	38,831	39,164	39,565

Balance Sheet Data

(In thousands)

Year Ended December 31	2001	2000	1999	1998	1997
Working capital	$217,876	$262,778	$181,147	$150,535	$149,184
Total assets	$522,537	$546,336	$556,296	$301,711	$282,401
Deferred income taxes	$8,284	$15,342	$80,265	$3,295	$2,148
Total debt	$50,000	$50,000	$50,000	$50,000	$50,000
Stockholders' equity	$437,628	$434,425	$400,052	$231,389	$212,037

(1) Assumes exercise of dilutive stock options calculated under the treasury stock method.
See Notes 1 and 11 of Notes to Financial Statements.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

ADTRAN®, Inc. ("ADTRAN") designs, develops, manufactures, markets and services a broad range of high-speed network access products utilized by providers of telecommunications services (serviced by ADTRAN's Carrier Networks Division or CN) and corporate end-users (serviced by ADTRAN's Enterprise Networks Division or EN). We currently sell our products to a large number of carriers, including all Regional Bell Operating Companies ("RBOCs"), and to private and public enterprises worldwide.

Although total sales did not increase this year compared to last year due to an overall downturn in the telecommunications market, we have protected revenue by maintaining our strategy of increasing unit volume and market share through the introduction of succeeding generations of products having lower selling prices and increased functionality as compared both to the prior generation of a product and to the products of competitors. An important part of ADTRAN's strategy is to engineer the reduction of the product cost of each succeeding product generation and then to lower the product's price based on the cost savings achieved. As a part of this strategy, we seek in most instances to be a low-cost, high-quality provider of products in our markets. ADTRAN's success to date is attributable in large measure to our ability to design our products initially with a view to their subsequent re-design, allowing both increased functionality and reduced manufacturing costs in each succeeding product generation. This strategy enables ADTRAN to sell succeeding generations of products to existing customers, while increasing our market share by selling these enhanced products to new customers.

Our operating results have fluctuated on a quarterly basis in the past, and operating results may vary significantly in future periods due to a number of factors. We operate with very little order backlog. A substantial majority of our sales in each quarter results from orders booked in that quarter and firm purchase orders released in that quarter by customers under agreements containing non-binding purchase commitments. Furthermore, a majority of customers typically require prompt delivery of products. This results in a limited backlog of orders for these products and requires us to maintain sufficient inventory levels to satisfy anticipated customer demand. If near-term demand for ADTRAN's products declines, or if potential sales in any quarter do not occur as anticipated, our financial results could be adversely affected. Operating expenses are relatively fixed in the short term; therefore, a shortfall in quarterly revenues could impact ADTRAN's financial results significantly in a given quarter. Further, maintaining sufficient inventory levels to assure prompt delivery of our products increases the amount of inventory which may become obsolete and increases the risk that the obsolescence of such inventory may have an adverse effect on our business and operating results.

ADTRAN's operating results may also fluctuate as a result of a number of other factors, including increased competition, customer order patterns, changes in product mix, product warranty returns and announcements of new products by ADTRAN or our competitors. Accordingly, ADTRAN's historical financial performance is not necessarily a meaningful indicator of future results, and, in general, management expects that ADTRAN's financial results may vary from period to period. See Note 12 of Notes to Financial Statements.

This 2001 Annual Report contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which represent ADTRAN's expectations or beliefs, including, but not limited to, statements concerning (i) the business and financial outlook, (ii) our business, financial condition or results of operations, and (iii) our business strategy. When used in this 2001 Annual Report, the words "believe," "anticipate," "think," "intend," "will be," and similar expressions identify forward-looking statements. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. Readers are also urged to carefully review and consider the various disclosures, including, but not limited to, the disclosures described under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations," "2001 Compared to 2000," and "Liquidity and Capital Resources," and those discussed in ADTRAN's filings with the Securities and Exchange Commission, as well as the general economic conditions and industry trends which could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements.

Results of Operations

The following table presents selected financial information derived from ADTRAN®'s statements of income expressed as a percentage of sales for the years indicated.

(Stated as % of sales)

Years Ended December 31	2001	2000	1999
Sales			
CN (Carrier Networks Division)	61.6%	68.1%	62.9%
EN (Enterprise Networks Division)	38.4	31.9	37.1
Total sales	**100.0**	**100.0**	**100.0**
Cost of sales	55.2	50.4	48.7
Gross profit	**44.8**	**49.6**	**51.3**
Selling, general and administrative expenses	24.8	18.8	19.5
Research and development expenses	15.2	10.9	11.4
Operating income	**4.8**	**19.9**	**20.4**
Interest income	2.2	1.9	1.5
Interest expense	(0.5)	(0.4)	(0.6)
Other expenses	(0.1)	0.0	(0.2)
Net realized investment gains (losses)	(0.2)	18.1	0.0
Income before provision for income taxes	**6.2**	**39.5**	**21.0**
Provision for income taxes	1.7	13.4	7.1
Net income	**4.5%**	**26.1%**	**13.9%**

2001 Compared to 2000

Sales

ADTRAN's sales decreased 16.4% from $462,949,000 in 2000 to $387,080,000 in 2001. Sales for the CN division decreased 24.4% from $314,228,000 in 2000 to $238,367,000 in 2001. The decrease in CN sales resulted from a downturn in the Carrier Access market. CN sales as a percentage of total sales decreased from 68.1% in 2000 to 61.6% in 2001. Sales of EN products increased 0.7% from $147,721,000 in 2000 to $148,713,000 in 2001. Sales volume for EN remained stable due to market acceptance of ADTRAN's Integrated Access products. As a percentage of total sales, EN sales increased from 31.9% in 2000 to 38.4% in 2001.

Cost of Sales

Cost of sales decreased from $233,429,000 in 2000 to $213,760,000 in 2001. As a percentage of sales, cost of sales increased from 50.4% in 2000 to 55.2% in 2001. This increase was due primarily to a rise in material costs as a percentage of sales. CN cost of sales decreased from $168,342,000 in 2000 to $144,724,000 in 2001. CN cost of sales as a percentage of CN sales increased from 53.4% in 2000 to 60.7% in 2001. EN cost of sales increased from $65,058,000 in 2000 to $69,037,000 in 2001. EN cost of sales as a percentage of EN sales increased from 44.0% in 2000 to 46.4% in 2001. An important part of ADTRAN's strategy is to reduce the product cost of each succeeding product generation and then to lower the product's price based on the cost savings achieved. This strategy sometimes results in variations in ADTRAN's gross profit margin due to timing differences between the lowering of product selling prices and the realization of cost reductions. In view of the rapid pace of new product introductions by ADTRAN, this strategy may result in variations in gross profit margins that, for any particular financial period, can be difficult to predict.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 10.1% from $87,116,000 in 2000 to $95,954,000 in 2001. Beginning in mid year 2000, we increased expenditures for the expansion of our infrastructure in both sales and support personnel in an effort to expand our customer base and for increased initiatives in the EN and International markets. As a result, selling, general and administrative expenses as a percentage of sales increased from 18.8% in 2000 to 24.8% in 2001. However, during the second half of 2001, selling, general and administrative expenses decreased 4.2% from the second half of 2000 due to a reduction in force and salary reductions. Selling, general and administrative expenses as a percentage of sales will fluctuate whenever there is a significant fluctuation in revenues during the periods being compared.

Research and Development Expenses

Research and development expenses increased 16.4% from $50,628,000 in 2000 to $58,935,000 in 2001. This increase was due to increased engineering costs associated with new product introductions and feature enhancement activities. As a percentage of sales, research and development expenses increased from 10.9% in 2000 to 15.2% in 2001. ADTRAN continually evaluates new product opportunities and engages in intensive research and product development efforts. To date, ADTRAN has expensed all product research and development costs as incurred. Additionally, ADTRAN frequently invests heavily in up-front market development efforts prior to the actual commencement of sales of a major new product. As a result, ADTRAN may incur significant research and development expenses prior to the receipt of revenues from a major new product group. ADTRAN is presently incurring research and development expenses in connection with its new products and its expansion into international markets. Research and development expenses as a percentage of sales will fluctuate whenever there is a significant fluctuation in revenues during the periods being compared.

Interest Expense

Interest expense increased 14.8% from $1,802,000 in 2000 to $2,069,000 in 2001. ADTRAN currently pays interest on a $50,000,000 revenue bond, the proceeds of which were used to expand our facilities in Huntsville, Alabama.

Interest Income

Interest income decreased 10.5% from $9,025,000 in 2000 to $8,077,000 in 2001. The decrease is largely due to lower interest rates compared to the prior year.

Net Realized Investment Gains and Losses

Net realized investment gains and losses decreased 100.8% from a net gain of $84,040,000 in 2000 to a net loss of ($674,000) in 2001. The decrease is primarily a result of a substantial net realized investment gain in 2000 from the sale of certain marketable securities of a single issuer.

Income Taxes

Our effective tax rate declined from 34% in 2000 to 27% in 2001 due to a higher mix of non-taxable income in 2001, as well as higher tax credits as a percent of taxable income. Income taxes (without regard to taxes on realized investment gains in the year 2000 of $28,574,000) decreased 81.0% from $33,657,000 in 2000 to $6,409,000 in 2001.

Net Income

As a result of the above factors, net income decreased 85.7% from $120,802,000 in 2000 to $17,329,000 in 2001. As a percentage of sales, net income decreased from 26.1% in 2000 to 4.5% in 2001.

2000 Compared to 1999

Sales

ADTRAN®'s sales increased 26.1% from $367,207,000 in 1999 to $462,949,000 in 2000. Sales for the CN division increased 36.4% from $230,967,000 in 1999 to $315,228,000 in 2000. CN sales, as a percentage of total sales, increased from 62.9% in 1999 to 68.1% in 2000. Sales of EN products increased 8.4% from $136,240,000 in 1999 to $147,721,000 in 2000. As a percentage of total sales, EN sales decreased from 37.1% in 1999 to 31.9% in 2000. In general, the increased sales resulted from increased sales volume to existing customers and from increased market penetration. The primary factors contributing to the increase in sales in 2000 were (i) additional market penetration for our HDSL products, (ii) continuing growth in demand for T1 products, (iii) continuing growth in sales of the ATLAS™ integrated access device, and (iv) continuing growth in sales of the Total Access® product line.

Cost of Sales

Cost of sales increased from $178,629,000 in 1999 to $233,429,000 in 2000. As a percentage of sales, cost of sales increased from 48.7% in 1999 to 50.4% in 2000. This increase was due primarily to a rise in material costs as a percentage of sales. CN cost of sales increased from $122,158,000 in 1999 to $168,342,000 in 2000. CN cost of sales as a percentage of CN sales increased from 52.9% in 1999 to 53.4% in 2000. EN cost of sales increased from $56,472,000 in 1999 to $65,058,000 in 2000. As a percentage of EN sales, EN cost of sales increased from 41.5% in 1999 to 44.0% in 2000. An important part of ADTRAN's strategy is to reduce the product cost of each succeeding product generation and then to lower the product's price based on the cost savings achieved. This strategy sometimes results in variations in ADTRAN's gross profit margin due to timing differences between the lowering of product selling prices and the realization of cost reductions. In view of the rapid pace of new product introductions by ADTRAN, this strategy may result in variations in gross profit margins that, for any particular financial period, can be difficult to predict.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 21.4% from $71,735,000 in 1999 to $87,116,000 in 2000. The net increase was due to expanding infrastructure on both sales and support personnel. However, as a percentage of sales, selling, general and administrative expenses decreased from 19.5% in 1999 to 18.8% in 2000. The decrease is due primarily to operating efficiencies, realized as a result of a larger sales base. Selling, general and administrative expenses as a percentage of sales will fluctuate whenever there is a significant fluctuation in revenues in the periods being compared.

Research and Development Expenses

Research and development expenses increased 20.5% from $42,018,000 in 1999 to $50,628,000 in 2000. This increase was due to increased engineering costs associated with new product introductions and feature enhancement activities. As a percentage of sales, research and development expenses decreased from 11.4% in 1999 to 10.9% in 2000. ADTRAN continually evaluates new product opportunities and engages in intensive research and product development efforts. To date, ADTRAN has expensed all product research and development costs as incurred. Additionally, ADTRAN frequently invests heavily in up-front market development efforts prior to the actual commencement of sales of a major new product. As a result, ADTRAN may incur significant research and development expenses prior to the receipt of revenues from a major new product group. ADTRAN is presently incurring research and development expenses in connection with its new products and its expansion into international markets. Research and development expenses as a percentage of sales will fluctuate whenever there is a significant fluctuation in revenues in the periods being compared.

Interest Expense

Interest expense decreased 22.0% from $2,312,000 in 1999 to $1,802,000 in 2000. ADTRAN currently pays interest on a $50,000,000 revenue bond, the proceeds of which were used to expand our facilities in Huntsville, Alabama.

Net Realized Investment Gains

Net realized investment gains increased from $0 in 1999 to $84,040,000 in 2000. The increase was largely due to the sale of certain marketable equity securities in 2000 (included in long-term investments in the accompanying condensed balance sheet).

Income Taxes

Our effective annual tax rate from 1999 to 2000 remained consistent at approximately 34%.

Net Income

As a result of the above factors, net income increased 137.1% from $50,946,000 in 1999 to $120,802,000 in 2000. As a percentage of sales, net income increased from 13.9% in 1999 to 26.1% in 2000. A substantial contribution to the increase in net income was the realized gain on the sale of certain marketable securities.

Liquidity and Capital Resources

ADTRAN completed the construction of Phase IV of our corporate headquarters in Huntsville, Alabama, in October 2000. Over the next several years, we expect to spend approximately an additional $25,000,000 to equip Phase IV. Fifty million dollars of ADTRAN's Phase III expansion was approved for participation in an incentive program offered by the Alabama State Industrial Development Authority (the "Authority"). The incentive program enables participating companies to generate Alabama corporate income tax credits that can be used to reduce the amount of Alabama corporate income taxes that would otherwise be payable. There can be no assurance that the State of Alabama will continue to make these corporate income tax credits available in the future, and therefore, ADTRAN may not realize the full benefit of these incentives. Through December 31, 2001, the Authority had issued $50,000,000 of its taxable revenue bonds pursuant to the incentive program and loaned the proceeds from the sale of the bonds to ADTRAN. We are required to make payments to the Authority in amounts necessary to pay the principal of and interest on the Authority's Taxable Revenue Bond, Series 1995, as amended, currently outstanding in the aggregate principal amount of $50,000,000. The bond matures on January 1, 2020, and bears interest at the rate of 45 basis points over the money market rate of First Union National Bank of Tennessee.

ADTRAN's working capital position decreased 16.5% from $262,778,000 as of December 31, 2000 to $217,876,000 as of December 31, 2001. Accounts payable, accounts receivable and other receivables decreased 54.4%, 26.2% and 73.2% respectively, from December 31, 2000 to December 31, 2001. These decreases are directly related to the overall industry slow down and the consolidation of our subcontractors. ADTRAN has used, and expects to continue to use, the cash generated from operations for working capital and other general corporate purposes, including (i) product development activities to enhance its existing products and develop new products and (ii) expansion of sales and marketing activities. Inventory decreased 36.3% from $89,253,000 in 2000 to $56,849,000 in 2001. The decrease in inventory is attributable to management's continued efforts to streamline our production process and focus on manufacturing velocity.

In October 1998, the Board of Directors authorized ADTRAN to re-purchase 2,000,000 shares of our outstanding common stock. In July 2001, the Board approved the re-purchase of an additional 2,000,000 shares. As of December 31, 2001, we had re-purchased 336,417 shares of our common stock at a total cost of $6,540,000 under these programs.

Capital expenditures totaling $13,216,000, $32,540,000, and $36,237,000 in 2001, 2000 and 1999, respectively, were used to expand our headquarters and to purchase equipment.

At December 31, 2001, ADTRAN's cash on hand of $81,280,000 and short-term investments of $26,283,000 placed our short-term cash availability at $107,563,000. During 2001, ADTRAN's balance sheet has been substantially strengthened. As reflected in our statement of cash flows, we generated $93.2 million in cash from operating activities. This was largely due to our substantial decreases in inventory, stable collection cycle and our collection of other receivables.

Investment Policy

ADTRAN's short-term investments represent the liquid and working funds for the present and future operations of the Company. These assets are invested with appropriate diversification to preserve capital, provide liquidity, and generate returns appropriate to current instruments in prevailing market conditions.

Long-term investments are likewise invested to preserve principal and liquidity, while maximizing overall returns on the Company's monetary assets. This is achieved through conservative investments and appropriate diversification in fixed income, public equity, and private equity portfolios.

We intend to finance our operations in the future with cash flow from operations and remaining borrowed taxable revenue bond proceeds. We believe these available sources of funds to be adequate to meet our operating and capital needs for the foreseeable future.

Management's Responsibility for Financial Reporting

The accompanying financial statements and related notes of ADTRAN®, Inc. were prepared by management, which has the primary responsibility for the integrity of the financial information therein. The statements were prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances, and include amounts which necessarily are based on management's judgment. Financial information presented elsewhere in this report is consistent with that in the financial statements.

Management maintains a comprehensive system of internal accounting controls and relies on the system to discharge its responsibility for the integrity of the financial statements. This system provides reasonable assurance that corporate assets are safeguarded, and that transactions are recorded in such a manner as to permit the preparation of reliable financial information. Reasonable assurance recognizes that the cost of a system of internal accounting controls should not exceed the related benefits. This system of internal accounting controls is augmented by written policies and procedures and the careful selection and training of qualified personnel. As of December 31, 2001, management was aware of no material weaknesses in the ADTRAN system of internal accounting controls.

The financial statements have been audited by ADTRAN's independent certified public accountants, whose opinion is expressed on the following page. Their audit was conducted in accordance with auditing standards generally accepted in the United States of America, and as such, they obtained an understanding of ADTRAN's systems of internal accounting controls and conducted such tests and related procedures as they deemed necessary to arrive at an opinion on the fairness of presentation of the financial statements.

Mark C. Smith
Chairman and Chief Executive Officer

James E. Matthews
Senior Vice President - Finance and Chief Financial Officer

Report of Independent Accountants

To the Board of Directors and Stockholders of ADTRAN, Inc.,

In our opinion, the accompanying balance sheets and the related statements of income, changes in stockholders' equity and cash flows present fairly, in all material respects, the financial position of ADTRAN, Inc. at December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of ADTRAN's management; our responsibility is to express an opinion on these financial statements based on our audits of these statements. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Birmingham, Alabama
January 28, 2002

Financial Statements

Balance Sheets

At December 31	2001	2000
Assets		
Current assets		
Cash and cash equivalents	$81,280,409	$60,748,728
Short-term investments	26,282,961	32,650,183
Accounts receivable, less allowance for doubtful accounts of $3,882,099 and $813,003 in 2001 and 2000, respectively	60,598,867	82,133,831
Other receivables	9,609,478	35,862,774
Inventory, net	56,849,470	89,252,729
Prepaid expenses	3,486,470	4,032,438
Deferred income taxes	5,904,755	4,505,008
Total current assets	**244,012,410**	**309,185,691**
Property, plant and equipment, net	120,133,445	123,713,176
Other assets	489,000	469,000
Long-term investments	157,901,718	112,968,138
Total assets	**$522,536,573**	**$546,336,005**
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$15,551,685	$34,113,832
Accrued expenses	7,721,682	8,560,073
Income taxes payable	3,352,049	3,734,234
Total current liabilities	**26,625,416**	**46,408,139**
Bonds payable	50,000,000	50,000,000
Deferred income taxes	8,283,601	15,342,435
Total liabilities	**84,909,017**	**111,750,574**
Minority interest in subsidiary		160,000
Commitments and Contingencies (see Note 10)		
Stockholders' equity		
Common stock, par value $.01 per share; 200,000,000 shares authorized; 39,445,198 shares issued in 2001 and 2000	394,452	394,452
Additional paid-in capital	96,384,091	96,707,263
Accumulated other comprehensive income	9,374,389	19,870,288
Retained earnings	350,233,932	332,905,403
Less treasury stock at cost: 910,236 and 733,192 shares in 2001 and 2000, respectively	(18,759,308)	(15,451,975)
Total stockholders' equity	**437,627,556**	**434,425,431**
Total liabilities and stockholders' equity	**$522,536,573**	**$546,336,005**

The accompanying notes are an integral part of these financial statements.

Statements of Income

Years ended December 31	2001	2000	1999
Sales	$387,080,690	$462,948,721	$367,207,437
Cost of sales	213,759,507	233,429,280	178,629,643
Gross profit	**173,321,183**	**229,519,441**	**188,577,794**
Selling, general and administrative expenses	95,954,228	87,115,889	71,734,959
Research and development expenses	58,934,952	50,628,190	42,017,779
Operating income	**18,432,003**	**91,775,362**	**74,825,056**
Interest income	8,076,522	9,024,543	5,349,762
Interest expense	(2,068,653)	(1,802,158)	(2,311,667)
Other expenses	(28,527)	(4,125)	(672,920)
Net realized investment gains (losses)	(673,851)	84,040,126	
Income before provision for income taxes	**23,737,494**	**183,033,748**	**77,190,231**
Provision for income taxes	6,408,965	62,231,487	26,244,677
Net income	**$17,328,529**	**$120,802,261**	**$50,945,554**
Weighted average shares outstanding	38,567,324	38,647,288	38,334,507
Weighted average shares outstanding assuming dilution (1)	38,676,187	39,704,286	38,831,091
Earnings per common share – basic	$.45	$3.13	$1.33
Earnings per common share – assuming dilution (1)	$.45	$3.04	$1.31

(1) Assumes exercise of dilutive stock options calculated under the treasury stock method.
The accompanying notes are an integral part of these financial statements.

Statements of Changes in Stockholders' Equity

Years ended December 31, 2001, 2000 and 1999

	Number Of shares	Common Stock Par Value ($.01 Per Share)	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unrealized Gain on Marketable Equity Securities	Total Stockholders' Equity
Balance, December 31, 1998	**39,422,033**	**$394,221**	**$93,053,174**	**$161,157,588**	**($23,216,047)**	**$0**	**$231,388,936**
Net Income				50,945,554			50,945,554
Unrealized gain on marketable securities (net of deferred tax of $76,000,000)						116,000,000	116,000,000
Stock options exercised: various prices per share	23,165	231	192,462		1,532,589		1,725,282
Purchase of treasury stock: 20,160 shares					(325,991)		(325,991)
Income tax benefit from exercise of non-qualified stock options			318,690				318,690
Balance, December 31, 1999	**39,445,198**	**$394,452**	**$93,564,326**	**$212,103,142**	**($22,009,449)**	**$116,000,000**	**$400,052,471**
Net Income				120,802,261			120,802,261
Change in unrealized gain on marketable securities (net of deferred tax of $22,994,436)						(40,719,712)	(40,719,712)
Reclassification adjustment for amounts included in net income (net of income tax of $29,954,217)						(55,410,000)	(55,410,000)
Stock options exercised: various prices per share			140,217		6,627,900		6,768,117
Purchase of treasury stock: 1,176 shares					(70,426)		(70,426)
Income tax benefit from exercise of non-qualified stock options			3,002,720				3,002,720
Balance, December 31, 2000	**39,445,198**	**$394,452**	**$96,707,263**	**$332,905,403**	**($15,451,975)**	**$19,870,288**	**$434,425,431**
Net Income				17,328,529			17,328,529
Change in unrealized gain on marketable securities (net of deferred tax of $4,077,218)						(7,220,144)	(7,220,144)
Reclassification adjustment for amounts included in net income (net of income tax of $1,849,820)						(3,275,755)	(3,275,755)
Stock options exercised: various prices per share			(339,623)		793,017		453,394
Purchase of treasury stock: 215,000 shares					(4,100,350)		(4,100,350)
Income tax benefit from exercise of non-qualified stock options			16,451				16,451
Balance, December 31, 2001	**39,445,198**	**$394,452**	**$96,384,091**	**$350,233,932**	**($18,759,308)**	**$9,374,389**	**$437,627,556**

ADTRAN® issued 37,956, 315,314 and 72,911 shares of Treasury Stock to accommodate employee stock option exercises during 2001, 2000 and 1999, respectively.

Comprehensive income in 2001 of $6,832,630 consists of net income of $17,328,529 and unrealized losses on marketable securities of $10,495,899 (net of deferred tax).

Comprehensive income in 2000 of $24,672,549 consists of net income of $120,802,261 and unrealized losses on marketable securities of $96,129,712 (net of deferred tax).

Comprehensive income in 1999 of $166,945,554 consists of net income of $50,945,554 and unrealized gains on marketable securities of $116,000,000 (net of deferred tax).

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

Years ended December 31	2001	2000	1999
Cash flows from operating activities			
Net income	$17,328,529	$120,802,261	$50,945,554
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	16,798,846	13,418,843	10,546,594
Gain on sale of property, plant and equipment			(5,050)
Loss on sale of short-term investments	179,729	141,233	417,749
Gain on sale of long-term investments	(5,159,414)	(85,040,126)	
Write-down of other equity and debt securities	5,653,536	1,000,000	
Deferred income taxes	(2,527,095)	16,411	(683,237)
Income tax benefit from exercise of non-qualified stock options	16,451	3,002,720	318,690
Change in operating assets:			
Accounts receivable	21,534,964	(22,096,955)	(13,448,557)
Inventory, net	32,403,259	(30,683,956)	7,131,803
Other receivables	26,250,108	(31,430,079)	(3,743,198)
Prepaid expenses and other assets	525,968	(2,871,152)	(55,920)
Accounts payable	(18,562,147)	21,339,984	1,793,751
Accrued expenses	(838,391)	1,451,825	2,122,491
Income taxes payable	(382,185)	(2,362,225)	5,035,664
Net cash provided by (used in) operating activities	**93,222,158**	**(13,311,216)**	**60,376,334**
Cash flows from investing activities			
Expenditures for property, plant and equipment	(13,215,927)	(32,540,097)	(36,236,622)
Proceeds from the disposition of property, plant, and equipment			5,050
Proceeds from sale of long-term investments	36,281,649	91,118,394	3,893,832
Purchases of long-term investments	(97,793,588)	(37,027,741)	(1,221,411)
Proceeds from sale of short-term investments	59,228,684	177,081,903	38,581,797
Purchases of short-term investments	(53,544,339)	(168,792,543)	(39,285,254)
Net cash provided by (used in) investing activities	**(69,043,521)**	**29,839,916**	**(34,262,608)**
Cash flows from financing activities			
Proceeds from issuance of common stock	453,394	6,768,117	1,725,282
Purchase of treasury stock	(4,100,350)	(70,426)	(325,991)
Net cash provided by (used in) financing activities	**(3,646,956)**	**6,697,691**	**1,399,291**
Net increase (decrease) in cash and cash equivalents	20,531,681	23,226,391	27,513,017
Cash and cash equivalents, beginning of year	**60,748,728**	**37,522,337**	**10,009,320**
Cash and cash equivalents, end of year	**$81,280,409**	**$60,748,728**	**$37,522,337**
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	$1,867,264	$1,802,158	$2,311,667
Cash paid during the year for income taxes	$11,760,534	$61,760,406	$22,094,478

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

1 Nature of Business and Summary of Significant Accounting Policies

ADTRAN®, Inc. designs, develops, manufactures, markets, and services a broad range of high-speed network access products utilized by providers of telecommunications services (serviced by ADTRAN's Carrier Networks Division or CN) and corporate end users (serviced by ADTRAN's Enterprise Networks Division or EN) to implement advanced digital data services over public and private networks. ADTRAN also customizes many of its products for private label distribution and for original equipment manufacturers to incorporate into their own products. Most of ADTRAN's CN and EN products are connected to the local loop, which is the large existing infrastructure of the telephone network, predominantly consisting of copper wireline, which connects end users to a Central Office, the facility that provides local switching and distribution functions. The balance of ADTRAN's products are used in the Central Office.

Cash and Cash Equivalents

Cash and cash equivalents represent demand deposits, money market accounts and short-term investments classified as held-to-maturity (see Note 2) with original maturities of three months or less.

Financial Instruments

The carrying amounts reported in the balance sheets for cash and cash equivalents, accounts receivable, and accounts payable approximate fair value due to the immediate or short-term maturity of these financial instruments. The carrying amount reported for bonds payable approximates fair value because the underlying instruments are at variable rates that re-price frequently.

Investments represent re-marketed preferred stocks, municipal bonds and marketable equity securities. Re-marketed preferred stocks are designed to be marketed as money market instruments. These instruments' dividend rates reset on a short-term basis to maintain the price of the instruments at par. These instruments may be redeemed on the date the interest rate resets. The fair value of short-term investments is estimated based on quoted market prices (see Note 2). Realized gains or losses are computed under the specific identification method.

Long-term investments represent restricted money market funds (see Note 2), municipal bonds, marketable equity securities and other equity and debt investments. The fair value of the restricted money market funds approximates fair value due to a variable interest rate. Marketable equity securities are reported at market value as determined by the most recently traded price of the securities at the balance sheet date, although the securities may not be readily marketable due to the size of the available market. Unrealized gains and losses, net of tax, are reported as a separate component of stockholders' equity. Realized gains and losses are computed under the specific identification method and are included in current income.

Other Receivables

Other receivables are comprised primarily of accrued interest and amounts due from subcontractors for raw material sales.

Inventory

Inventory is carried at the lower of cost or market, with cost being determined using the first-in, first-out method.

Property, Plant and Equipment

Property, plant and equipment, which is stated at cost, is depreciated using methods which approximate straight-line depreciation over the estimated useful lives of the assets. ADTRAN depreciates its building and land improvements from five to thirty-nine years, office machinery and equipment from three to seven years, and its engineering machinery and equipment from three to seven years. Expenditures for repairs and maintenance are charged to expense as incurred; betterments which materially prolong the lives of the assets are capitalized. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are removed from the accounts and the gain or loss on such disposition is included in income.

Long-Lived Assets
ADTRAN evaluates long-lived assets used in operations for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying values. An impairment loss would be recognized in the amount by which the recorded value of the asset exceeds the fair value of the asset, measured by the quoted market price of the asset or an estimate based on the best information available in the circumstances. There were no such losses recognized during 2001, 2000 or 1999. ADTRAN does not expect the adoption of SFAS No.'s 141, 142, 143 and 144 to impact this policy.

Research and Development Costs
Research and development costs are expensed as incurred.

Comprehensive Income
Comprehensive income consists of net income and unrealized gains and losses on marketable equity securities, net of deferred taxes, and is presented in the Statements of Changes in Stockholders' Equity.

Income Taxes
ADTRAN utilizes the asset and liability method of accounting for income taxes which requires the establishment of deferred tax liabilities and assets, as measured by enacted tax rates, for all temporary differences caused when the tax basis of assets and liabilities differ from those reported in the financial statements.

Interest in Subsidiary
ADTRAN consolidates ADTRAN AG, a Switzerland-based subsidiary, and reflected the 25% minority interest as minority interest in the accompanying balance sheet at December 31, 2000. During 2001, ADTRAN purchased the 25% minority interest in ADTRAN AG for an amount approximating its book value.

Revenue Recognition
Revenue is generally recognized upon shipment of the product to the customer or, in the case of remote customer located warehouses, upon delivery to the customer. Shipping fees are recorded as revenue and the related cost is included in cost of sales. Revenue is recorded net of discounts. Also, revenue is recorded when the product price is fixed and determinable, collection of the resulting receivable is probable, and product returns are reasonably estimable.

Earnings Per Share
Earnings per common share, and earnings per common share assuming dilution, are based on the weighted average number of common and, when dilutive, common equivalent shares outstanding during the year (see Note 11).

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications
Certain 2000 amounts have been reclassified to conform to the 2001 financial statement presentation. These reclassifications had no effect on previously reported net income, operating cash flows or total stockholders' equity.

Recently Issued Accounting Standards
In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combinations, which has an effective date of June 30, 2001 for all business combinations initiated after this date. This statement requires all business combinations within the scope of the Statement to be accounted for using the purchase method of accounting. SFAS No. 141 does not currently impact ADTRAN.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 142, Goodwill and Other Intangible Assets, which has an effective date starting with fiscal years beginning after December 15, 2001. This statement addresses the accounting for goodwill and other intangible assets. SFAS No. 142 does not currently impact ADTRAN.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143, Accounting for Asset Retirement Obligations ("ARO"), which has an effective date for financial statements for fiscal years beginning after June 15, 2002. This statement addresses the diversity in practice for recognizing asset retirement obligations and requires that obligations associated with the retirement of a tangible long-lived asset be recorded as a liability when those obligations are incurred, with the amount of the liability initially measured at fair value. Upon initially recognizing a liability for an ARO, an entity must capitalize the cost by recognizing an increase in the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The impact of SFAS No. 143 is not expected to be material to the Company's financial statements.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which has an effective date for financial statements for fiscal years beginning after December 15, 2001. This statement, which supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, this statement expands the scope of discontinued operations to include all components of an entity with operations that (i) can be distinguished from the rest of the entity and (ii) will be eliminated from the ongoing operations of the entity in a disposal transaction. The impact of SFAS No. 144 is not expected to be material to the Company's financial statements.

2 Investments

ADTRAN® classifies its securities as either available-for-sale or held-to-maturity. At December 31, 2001 and 2000, ADTRAN held the following securities, recorded at either fair value or amortized cost, which approximates fair value.

December 31, 2001

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Values
Available-for-sale securities				
Restricted money market funds	$50,000,000			$50,000,000
Municipal bonds	71,396,688	$242,072	$(684,961)	70,953,799
Marketable equity securities	19,004,225	16,872,101	(1,743,808)	34,132,518
Other equity securities	811,705			811,705
Total available-for-sale securities	**$141,212,618**	**$17,114,173**	**($2,428,769)**	**$155,898,022**
Held-to-maturity investments				
Municipal bonds and other government fixed income securities	$25,972,779			$25,972,779
Other debt securities	2,313,877			2,313,877
Total held-to-maturity securities	**$28,286,656**			**$28,286,656**

December 31, 2000

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Values
Available-for-sale securities				
Restricted money market funds	$50,000,000			$50,000,000
Municipal bonds	15,055,318	6,449	(16,630)	15,045,137
Marketable equity securities	10,602,403	32,201,010	(690,220)	42,113,193
Other equity securities	5,809,808			5,809,808
Total available-for-sale securities	**$81,467,529**	**$32,207,459**	**($706,850)**	**$112,968,138**
Held-to-maturity investments:				
Municipal bonds and other government fixed income securities	$32,650,183			$32,650,183
Total held-to-maturity securities	**$32,650,183**			**$32,650,183**

Gross realized gains on the sale of available-for-sale securities were approximately $6,046,000 and gross realized losses were approximately $1,066,000 for the year ended December 31, 2001.

3 Inventory

At December 31, 2001 and 2000, inventory was comprised of the following:

At December 31	2001	2000
Raw materials	$32,838,488	$50,011,508
Work in process	5,154,555	12,606,275
Finished goods	18,856,427	26,634,946
	$56,849,470	**$89,252,729**

4 Property, Plant and Equipment

At December 31, 2001 and 2000, property, plant and equipment was comprised of the following:

At December 31	2001	2000
Land	$ 4,263,104	$4,263,104
Building	70,151,495	67,810,999
Land improvements	14,430,404	14,452,983
Office machinery and equipment	49,890,659	43,496,263
Engineering machinery and equipment	51,490,165	47,112,131
	190,225,827	**177,135,480**
Less accumulated depreciation	(70,092,383)	(53,422,304)
	$120,133,444	**$123,713,176**

5 Alabama State Industrial Development Authority Financing

In conjunction with an expansion of its Huntsville, Alabama facility, ADTRAN was approved for participation in an incentive program offered by the State of Alabama Industrial Development Authority (the "Authority"). Pursuant to the program, on January 13, 1995, the Authority issued $20,000,000 of its taxable revenue bonds and loaned the proceeds from the sale of the bonds to ADTRAN. The bonds were originally purchased by AmSouth Bank of Alabama, Birmingham, Alabama (the "Bank"). First Union National Bank of Tennessee, Nashville, Tennessee (the "Bondholder") purchased the original bonds from the Bank and made further advances to the Authority bringing the total amount outstanding to $50,000,000. An Amended and Restated Taxable Revenue Bond ("Amended and Restated Bond") was issued and the original financing agreement was amended. The Amended and Restated Bond bears interest, payable monthly. In 2001, the interest rate was 45 basis points above the money market rate of the Bondholder through September 30. During the fourth quarter the interest rate was 45 basis points above the certificate of deposit rate of the Bondholder. The Amended and Restated Bond matures on January 1, 2020. ADTRAN is required to make payments to the Authority in amounts necessary to pay the principal of and interest on the Amended and Restated Bond. Included in long-term investments is $50,000,000 of restricted money market funds, which is a collateral deposit against the principal of this bond.

6 Income Taxes

A summary of the components of the provision for income taxes as of December 31, 2001, 2000 and 1999 are as follows:

	2001	2000	1999
Current			
Federal	$6,919,148	$58,300,783	$24,764,291
State	2,016,912	3,914,293	2,163,623
Total current	**8,936,059**	**62,215,076**	**26,927,914**
Deferred tax provision (benefit)	(2,527,095)	16,411	(683,237)
Total provision for income taxes	**$6,408,965**	**$62,231,487**	**$26,244,677**

The provision for income taxes differs from the amounts computed by applying the federal statutory rate due to the following:

	2001	2000	1999
Tax provision computed at the Federal statutory rate (35% in 2001, 2000 and 1999)	$8,307,916	$64,061,831	$27,016,582
State income tax provision, net of Federal benefit	988,075	2,544,290	1,406,353
Federal research credits	(2,386,068)	(2,970,013)	(1,880,205)
Tax exempt income	(897,771)	(1,060,586)	
Other	396,813	(344,035)	(298,053)
	$6,408,965	**$62,231,487**	**$26,244,677**

Temporary differences which create deferred tax assets and liabilities at December 31, 2001 and 2000 are as follows:

	2001		2000	
	Current	Non-Current	Current	Non-Current
Accumulated depreciation		($5,310,950)		($4,611,379)
Investments		(2,972,651)		(10,731,056)
Accounts receivable	$1,644,845		$303,413	
Inventory	2,735,264		2,230,423	
Accruals	1,524,646		1,371,763	
Suspended research and development credit			599,409	
Deferred tax asset (liability)	**$5,904,755**	**($8,283,601)**	**$4,505,008**	**($15,342,435)**

No valuation allowance is deemed necessary by management, as the realization of recorded deferred tax assets is considered more likely than not.

7 Stock Option Plans

The Board of Directors of ADTRAN® adopted the 1996 Employees Incentive Stock Option Plan (the "1996 Plan") effective February 14, 1996, as amended, under which 8,488,100 shares of common stock were reserved for issuance to certain employees and officers through incentive stock options and non-qualified stock options. ADTRAN currently has options outstanding under its 1986 Employee Incentive Stock Option Plan (the "1986 Plan"), which expired on February 14, 1996. Options granted under the 1996 Plan or the 1986 Plan generally become exercisable after one year of continued employment, normally pursuant to a five-year vesting schedule beginning on the first anniversary of the grant date. In 2000, the Board of Directors voted to reduce the vesting schedule to four years beginning on the first anniversary of the grant date for new grants effective January 2000. Expiration dates of options outstanding under the 1996 Plan and the 1986 Plan at December 31, 2001, range from 2002 to 2011.

The Board of Directors of ADTRAN adopted the 1995 Directors Stock Option Plan ("Directors Plan") effective October 31, 1995, as amended, under which 200,000 shares of common stock have been reserved. The Directors Plan is a formula plan to provide options to directors of ADTRAN. At December 31, 2001, 92,000 options had been granted under the Directors Plan. Expiration dates of options outstanding under the Directors Plan at December 31, 2001 range from 2005 to 2011.

Pertinent information regarding the Company's stock option plans is as follows:

	Number Of Options	Range of Exercise Prices	Weighted Average Exercise Price	Vesting Provisions
Options outstanding, December 31, 1998	**2,179,786**	**$.50 - $65.75**	**$27.78**	**Various**
Options granted	520,000	$18.13 - $39.69	$35.75	Various
Options granted	642,000	$18.88 - $65.75	$36.05	Various
Options cancelled	(153,225)	$21.28 - $65.75	$32.52	Various
Options exercised	(96,076)	$.50 - $31.75	$17.96	Various
Options outstanding, December 31, 1999	**3,092,485**	**$1.50 - $65.75**	**$30.88**	**Various**
Options granted	779,415	$39.00 - $69.81	$67.82	Various
Options granted	616,185	$21.25 - $69.81	$67.12	Various
Options cancelled	(155,710)	$18.13 - $69.81	$37.36	Various
Options exercised	(315,314)	$1.50 - $65.75	$21.47	Various
Options outstanding, December 31, 2000	**4,017,061**	**$1.67 - $69.81**	**$44.02**	**Various**
Options granted	1,442,890	$19.23 - $28.08	$25.54	Various
Options cancelled	(266,746)	$21.31 - $69.81	$44.04	Various
Options exercised	(36,670)	$1.67 - $25.38	$12.36	Various
Options outstanding, December 31, 2001	**5,156,535**	**$1.67 - $69.81**	**$27.31**	**Various**

The following table summarizes information about stock options outstanding at December 31, 2001:

Options Outstanding

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$2.50 - $3.33	14,570	1.72	$3.15	14,570	$3.15
$18.13 - $21.31	739,715	6.77	$21.19	419,030	$21.16
$21.81 - $27.50	1,859,706	8.46	$25.40	373,936	$25.27
$28.06 - $46.25	1,106,990	7.28	$35.90	438,334	$36.42
$49.56 - $69.81	1,435,554	7.83	$68.36	541,358	$67.07
	5,156,535			**1,787,228**	

The options above were issued at exercise prices which approximate fair market value at the date of grant. At December 31, 2001, 3,268,996 options were available for grant under the plans. ADTRAN® applies APB Opinion No. 25 and related interpretations in accounting for our stock option plans. Accordingly, no compensation cost has been recognized related to stock options. Had compensation cost for ADTRAN's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method prescribed in SFAS No. 123, net income and earnings per share would have been reduced to the pro forma amounts indicated below:

Pro Forma Net Income & Earnings Per Share

	2001	2000	1999
Net income – as reported	$17,328,529	$120,802,261	$50,945,554
Net income – pro forma	(540,238)	108,525,119	44,903,017
Earnings per share – as reported assuming dilution	$.45	$3.04	$1.31
Earnings per share – pro forma assuming dilution	($.01)	$2.73	$1.16

The pro forma amounts reflected above are not representative of the effects on reported net income in future years because, in general, the options granted typically do not vest for several years and additional awards are made each year. The fair value of each option grant is estimated on the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions:

Weighted Average Assumptions

	2001	2000	1999
Dividend yield	0%	0%	0%
Expected life (years)	5	5	6
Expected volatility	53.1%	55.4%	59.4%
Risk-free interest rate	4.72%	6.18%	5.69%

8 Employee Benefit Plan

Effective January 1, 1990, ADTRAN adopted a savings plan (the "Savings Plan") for the benefit of eligible employees. The Savings Plan allows employees to contribute part of their compensation to the plan on a tax-deferred basis, and requires ADTRAN to contribute an amount equal to 3% of compensation each year for eligible employees who have completed a year of service. The Savings Plan is intended to qualify under Sections 401(a) and 401(k) of the Internal Revenue Code of 1986, as amended (the "Code"), and is intended to be a "safe harbor" 401(k) plan under Code Section 401(k)(12). Prior to January 1, 2001, instead of contributing 3% of each eligible employee's compensation each plan year, ADTRAN contributed matching contributions in an amount equal to 50% of each eligible employee's elective deferrals under the Savings Plan, up to 5% of the employee's compensation for the plan year. All contributions under the Savings Plan are 100% vested. Charges to operations for the Savings Plan amounted to approximately $2,456,000, $1,368,000 and $1,288,000 in 2001, 2000 and 1999, respectively.

9 Segment Information and Major Customers

ADTRAN, Inc. operates two reportable segments – (i) Carrier Networks (CN) and (ii) Enterprise Networks (EN). The accounting policies of the segments are the same as those described in the "Summary of Significant Accounting Policies" (see Note 1) to the extent that such policies affect the reported segment information. ADTRAN evaluates the performance of its segments based on gross profit; therefore, selling, general and administrative costs, as well as research and development, interest income/expense, and provision for taxes, are reported on an entity-wide basis only. There are no inter-segment revenues.

The following table presents information about the reported sales and gross profit of ADTRAN for the years ended December 31, 2001, 2000 and 1999. Asset information by reportable segment is not reported, since ADTRAN does not produce such information internally.

Sales by Market Segment
(In thousands)

Years ended December 31	2001		2000		1999	
	Sales	Gross Profit	Sales	Gross Profit	Sales	Gross Profit
CN	$238,367	$93,643	$315,228	$146,886	$230,967	$ 108,809
EN	148,714	79,677	147,721	82,633	136,240	79,769
Total	**$387,081**	**$173,320**	**$462,949**	**$229,519**	**$367,207**	**$188,578**

The following is sales information by product and geographic area for the years ended December 31, 2001, 2000 and 1999:

Sales by Product
(In thousands)

Years ended December 31	2001	2000	1999
Digital Business Transport (DBT)/Total Reach®	$86,794	$141,996	$133,064
High-bit-rate Digital Subscriber Line (HDSL)/T1	192,850	233,073	203,894
Systems	107,437	87,880	30,249
Total	**$387,081**	**$462,949**	**$367,207**

Sales by Geographic Region
(In thousands)

Years ended December 31	2001	2000	1999
United States	$369,422	$448,810	$357,699
Foreign	17,659	14,139	9,508
	$387,081	**$462,949**	**$367,207**

Sales of ADTRAN®'s network access equipment to the Regional Bell Operating Companies (RBOCs) and GTE, also known as Incumbent Local Exchange Carriers (ILECs), amounted to approximately 49%, 56% and 55% of total sales during the years ended December 31, 2001, 2000 and 1999, respectively. ADTRAN's EN division sells a significant portion of its products to value-added resellers through a multi-tier distribution system. Sales of this type amounted to 26%, 26% and 27% of ADTRAN's revenue for each of the years ended December 31, 2001, 2000 and 1999, respectively, and were routed through four primary fulfillment distributors.

10 Commitments and Contingencies

ADTRAN has certain contingent liabilities resulting from litigation arising in the normal course of business. Although the outcome of any litigation can never be certain, it is ADTRAN's opinion that the outcome of such contingencies will not materially affect its business, operations, financial condition or cash flows.

ADTRAN leases office space and equipment under operating leases which expire at various dates through 2003. As of December 31, 2001, future minimum rental payments under non-cancellable operating leases are approximately as follows:

2002	$438,000
2003	110,000
Total	**$548,000**

Rental expense was approximately $754,000, $846,000 and $988,000 in 2001, 2000 and 1999, respectively.

11 Earnings Per Share

A summary of the calculation of basic and diluted earnings per share (EPS) for the years ended December 31, 2001, 2000 and 1999 is as follows:

Year Ended December 31, 2001	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	$17,328,529	38,567,324	$.45
Effect of dilutive securities			
Stock options		108,863	
Diluted EPS			
Income available to common stockholders (with dilution) for assumed options exercised	$17,328,529	38,676,187	$.45

Year Ended December 31, 2000	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	$120,802,261	38,647,288	$3.13
Effect of dilutive securities			
Stock options		1,056,998	
Diluted EPS			
Income available to common stockholders (with dilution) for assumed options exercised	$120,802,261	39,704,286	$3.04*

Year Ended December 31, 1999	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	$50,945,554	38,334,507	$1.33
Effect of dilutive securities			
Stock options		496,584	
Diluted EPS			
Income available to common stockholders (with dilution) for assumed options exercised	$50,945,554	38,831,091	$1.31

**ADTRAN reported a realized investment gain from the sale of certain marketable equity securities, resulting in an after-tax gain of $55,410,000 ($1.39 per share assuming dilution). Earnings on a per share basis before the realized investment gain, assuming dilution, for the twelve months ended December 31, 2000 was $1.65.*

The following options were outstanding during the respective years shown below, but were not included in the computation of that year's diluted EPS because the options' exercise price was greater than the average market price of the common shares shown below.

Outstanding Options

Options Granted	Exercise Price	Year of Expiration	Options Granted	Exercise Price	Year of Expiration	Options Granted	Exercise Price	Year of Expiration
	2001			**2000**			**1999**	
34,450	$30.50-$46.25	2005	226,400	$56.25-$65.75	2006	46,000	$31.75-$46.25	2005
220,800	$39.75-$65.75	2006	4,000	$65.75	2009	276,000	$39.75-$65.75	2006
472,566	$25.38-$42.38	2007	1,316,150	$40.00-$69.81	2010	23,100	$37.88-$42.72	2007
11,675	$26.25-$31.00	2008				1,083,710	$36.06-$51.44	2009
967,140	$25.38-$51.44	2009						
1,274,364	$39.00-$69.81	2010						
1,396,090	$25.34-$28.08	2011						

12 Summarized Quarterly Financial Data (Unaudited)

The following table presents unaudited quarterly operating results for each of ADTRAN®'s last eight fiscal quarters. This information has been prepared by ADTRAN on a basis consistent with the audited financial statements and includes all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation of the data.

Unaudited Quarterly Operating Results

(In thousands, except for per share amounts)

Three months ended	March 31, 2001	June 30, 2001	September 30, 2001	December 31, 2001
Net sales	$105,276	$97,198	$95,513	$89,094
Gross profit	45,434	45,559	42,399	39,929
Operating income	4,521	5,796	5,098	3,017
Net income	3,959	4,637	4,950	3,783
(1) Earnings per common share assuming dilution	$.10	$.12	$.13	$.10
Earnings per common share	$.10	$.12	$.13	$.10

Three months ended	March 31, 2000	June 30, 2000	September 30, 2000	December 31, 2000
Net sales	$99,470	$114,447	$127,277	$121,755
Gross profit	54,404	61,670	65,953	47,492
Operating income	24,470	27,249	30,219	9,837
(2) Net income	16,794	18,648	76,868	8,493
(1) Earnings per common share assuming dilution	$.42	$.47	$1.93	$.22
Earnings per common share	$.44	$.48	$1.99	$.22

(1) Assumes exercise of dilutive stock options calculated under the treasury stock method.

(2) Net Income for Q3 2000 includes the realized gain from sale of certain marketable equity securities, resulting in an after tax gain of $55,410,000.

13. Subsequent Event

On January 28, 2002, the Company's Board of Directors approved a voluntary stock option exchange program for its employees, executive officers and directors. In conjunction with the exchange offer, the Company filed a Tender Offer Statement on Schedule TO with the Securities and Exchange Commission. Under the option exchange program, holders of options to purchase the Company's common stock who have not received options after July 23, 2001 will be given the opportunity to exchange unexercised stock options granted prior to September 30, 2000 with exercise prices of at least $40 per share. For every four shares of an eligible option, three shares will be made available under the new option grant. The new grant will be no earlier than six months and two days after the expiration of the offer to exchange, and the exercise price of the new options will equal the last reported trading price of the Company's common stock on the new grant date.

Directors & Executive Officers

Mark C. Smith
Chairman of the Board and Chief Executive Officer of the Company

Lonnie S. McMillian
Secretary and Director of the Company

Howard A. Thrailkill
President, Chief Operating Officer and Director of the Company

W. Frank Blount
Director of the Company, Chairman and Chief Executive Officer of Cypress Communications, Inc., a leading building-centric communications provider; Chairman and Chief Executive Officer of JI Ventures, Inc., a high-tech venture capital fund; and Retired Chief Executive Officer of Telstra Corporation, LTD, Australia's principal telecommunications company

William L. Marks
Director of the Company, Chairman of the Board and Chief Executive Officer of Whitney Holding Corp., the holding company for Whitney National Bank of New Orleans

Roy J. Nichols
Director of the Company, Vice Chairman of the Board and Chief Technical Officer of Nichols Research Corporation, a defense and information systems company, from 1976 to its merger with CSC in 1999; Vice Chairman of the Board and Chief Executive Officer of Torch Concepts, Inc.

James L. North
Director of the Company, Counsel to the Company since it commenced operations in 1986, attorney with James L. North & Associates, Birmingham, Alabama

James E. Matthews
Senior Vice President – Finance, Chief Financial Officer and Treasurer

Peter C. Voetsch
Senior Vice President – Operations

Danny J. Windham
Senior Vice President and General Manager – Enterprise Networks

Thomas R. Stanton
Senior Vice President and General Manager – Carrier Networks

P. Steven Locke
Vice President – Carrier Networks Marketing

Robert A. Fredrickson
Vice President – Carrier Networks Sales

Steven L. Harvey
Vice President – Competitive Service Providers and Enterprise Networks Sales

Everette R. Ramage
Vice President – Enterprise Networks Engineering

Kevin W. Schneider
Vice President – Technology

Transfer Agent
First Union National Bank
Charlotte, North Carolina

Independent Auditors
PricewaterhouseCoopers LLP
Birmingham, Alabama

General Counsel
James L. North, Attorney at Law
Birmingham, Alabama

Special Counsel
Long Aldridge & Norman LLP
Atlanta, Georgia

Form 10-K
ADTRAN's 2001 Annual Report on Form 10-K (without exhibits) as filed with the Securities and Exchange Commission is available to stockholders without charge upon written request to:

Investor Relations
ADTRAN, Inc.
901 Explorer Blvd.
P.O. Box 140000
Huntsville, Alabama 35814-4000
256 963-8611 or
256 963-8220

Annual Meeting
The 2002 Annual Meeting of Shareholders will be held at the Company headquarters, 901 Explorer Boulevard, Huntsville, Alabama, on Tuesday, April 16, 2002 at 10:30 a.m. Central time.

For more information on important happenings at ADTRAN, visit www.adtran.com

NASDAQ: ADTN

Experts choose ADTRAN.™

Corporate Headquarters
ADTRAN, Inc.
901 Explorer Boulevard
Huntsville, AL 35806
P.O. Box 140000
Huntsville, AL 35814-4000
800 9ADTRAN
256 963-8000 voice
256 963-8004 fax
256 963-8200 fax back
info@adtran.com e-mail

Domestic Offices
Atlanta, GA
Boston, MA
Chicago, IL
Dallas, TX
Denver, CO
Indianapolis, IN
Kansas City, KS
Los Angeles, CA
Milford, CT
Minneapolis, MN
Nashville, TN
Philadelphia, PA
Phoenix, AZ
Pittsburgh, PA
Richmond, VA
San Antonio, TX
San Diego, CA
San Francisco, CA
Seattle, WA
Tampa, FL
Washington, DC

Global Offices
Asia Pacific—Beijing, China
8610 8857 6415 voice
Asia Pacific—Hong Kong
852 2824 8283 voice
Asia Pacific—Melbourne, Australia
61 3 9658 0500 voice
Asia Pacific—Shenzhen, China
755 296 6626 voice
Canada—Montreal, Quebec
1 877 923 8726 voice
Canada—Toronto, Ontario
1 416 290 0585 voice
European Headquarters—Zürich, Switzerland
411 880 27 77 voice
Germany/Northern Europe—Frankfurt, Germany
49 6007 930 203 voice
Latin America/Caribbean*
1 954 474 4424 voice
Mexico*
1 256 963 8695 voice
*Gateway office located in the USA.

Experts choose ADTRAN.™

www.adtran.com